

REQUIRED SUPPLEMENTARY INFORMATION**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL (BUDGETARY BASIS — NON-GAAP)****GENERAL FUND**

For the Fiscal Year Ended June 30, 2012

(Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes:				
Individual income.....	\$ 9,820,050	\$ 9,820,050	\$ 10,272,136	\$ 452,086
Corporate income.....	1,000,200	1,000,200	1,132,871	132,671
Sales and use.....	5,293,070	5,293,070	5,257,585	(35,485)
Franchise.....	649,900	649,900	612,528	(37,372)
Insurance.....	510,900	510,900	460,440	(50,460)
Beverage.....	296,600	296,600	287,363	(9,237)
Inheritance.....	64,000	64,000	58,103	(5,897)
Tobacco products.....	260,200	260,200	270,901	10,701
Other.....	112,800	112,800	111,166	(1,634)
Non-Tax:				
Fees, licenses and fines.....	279,566	279,566	372,494	92,928
Investment income.....	59,400	59,400	17,788	(41,612)
Disproportionate share receipts.....	115,000	115,000	115,000	—
Other.....	406,445	406,510	304,523	(101,987)
Transfers in.....	293,803	293,803	293,806	3
Tobacco settlement.....	—	88,053	88,053	—
Departmental:				
Federal funds.....	12,120,641	13,129,518	12,093,988	(1,035,530)
Local funds.....	707,005	744,924	736,698	(8,226)
Inter-agency grants and allocations.....	10,386	267,910	14,426	(253,484)
Intra-governmental transactions.....	4,013,805	5,834,735	5,514,384	(320,351)
Sales and services.....	124,308	135,628	135,877	249
Rental and lease of property.....	14,519	14,828	14,629	(199)
Fees, licenses and fines.....	898,902	638,965	620,507	(18,458)
Contributions, gifts and grants.....	1,427,638	1,872,206	1,414,634	(457,572)
Federal recovery funds.....	29,647	583,543	379,548	(203,995)
Miscellaneous.....	772,985	407,543	193,651	(213,892)
Total Revenues.....	<u>39,281,770</u>	<u>42,879,852</u>	<u>40,773,099</u>	<u>(2,106,753)</u>
Expenditures:				
Current:				
General government.....	959,336	786,425	801,340	(14,915)
Primary and secondary education.....	10,587,407	11,552,458	10,467,237	1,085,221
Higher education.....	3,955,761	4,500,854	4,423,739	77,115
Health and human services.....	18,605,106	21,747,096	20,581,740	1,165,356
Environment and natural resources.....	408,329	341,077	304,888	36,189
Economic development.....	618,848	703,153	582,900	120,253
Public safety, corrections, and regulation.....	2,689,192	3,209,184	2,949,135	260,049
Agriculture.....	129,030	207,263	185,314	21,949
Capital outlay.....	4,535	4,535	4,535	—
Debt service.....	1,921,669	1,208,984	732,801	476,183
Total Expenditures.....	<u>39,879,213</u>	<u>44,261,029</u>	<u>41,033,629</u>	<u>3,227,400</u>
Excess revenues over (under) expenditures.....	(597,443)	(1,381,177)	(260,530)	1,120,647
Total fund balance at July 1, as restated.....	<u>2,005,966</u>	<u>2,005,966</u>	<u>2,005,966</u>	<u>—</u>
Total fund balance at June 30.....	<u>\$ 1,408,523</u>	<u>\$ 624,789</u>	<u>\$ 1,745,436</u>	<u>\$ 1,120,647</u>
Fund balance reserved:				
Statutory.....			\$ 513,115	
Non-reverting purposes.....			838,624	
Fund balance unreserved.....			<u>393,697</u>	
Total fund balance at June 30.....			<u>\$ 1,745,436</u>	

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

A. General Fund Budgetary Process

The State of North Carolina operates on a biennial budget cycle with separate annual departmental certified budgets adopted by the General Assembly on the cash basis of accounting for the General Fund.

The accompanying budgetary comparison schedule discloses the annual original budget and final budget for the General Fund. Actual amounts in the schedule are presented on the budgetary basis. Since the budgetary basis differs from generally accepted accounting principles (GAAP), a reconciliation between the budgetary basis and the GAAP basis is presented in section C below.

On July 20, 2006, the General Assembly passed House Bill 914, the State Budget Act, to replace the Executive Budget Act. This legislation was effective July 1, 2007 and affected budget development and management by simplifying, reorganizing, updating the current budget statutes, and making changes to conform the statutes to the state constitutional provisions governing appropriations. The legislation provided that agency budgets be classified in accordance with generally accepted accounting principles as interpreted by the State Controller.

The legal level of budgetary control is essentially at the object level. However, departments and institutions may make changes at their discretion within the budget of each purpose between and among objects for supplies and materials, current obligations and services, fixed charges and other expenses, and capital outlay. Also, Chapter 116, Article 1, Part 2A of the General Statutes authorized the 16 universities within the University of North Carolina System and the North Carolina School of Science and Mathematics to apply for special responsibility status, which sets the legal level of budgetary control at the institution's budget code level. A budget code is a convention used in the State's accounting system to distinguish the type of fund and the responsible department or institution. Budget codes are also used to segregate certain purposes within departments or institutions. Institutions with special responsibility status must still have certain budget revisions, primarily those associated with unanticipated revenues, approved by the Office of State Budget and Management (OSBM). Additionally, universities must maintain programs and services in accordance with the guidelines established by the Board of Governors of the consolidated University of North Carolina System. All 16 universities and the North Carolina School of Science and Mathematics have applied for and received special responsibility status.

Generally, unexpended appropriations at the end of the fiscal year lapse and are reappropriated in the next fiscal year. However, in certain circumstances the OSBM will allow a department to carry forward appropriations for specifically identified expenditures that will be paid in the next fiscal year.

This is accomplished by the department writing a check to itself and recording a budgetary expenditure. The check is deposited in the next fiscal year as a budgetary receipt.

A detailed listing of appropriation and departmental budget information is available for public inspection in the separately published "Budgetary Compliance Report" prepared by the Office of the State Controller, 3512 Bush Street, Raleigh, NC 27609-7509 and through the Office of State Budget and Management, 116 West Jones Street, Raleigh, NC 27603-8005.

B. Special Fund Budgetary Process

The major special revenue funds, which are the Highway Fund and Highway Trust Fund, do not have annual appropriated budgets.

C. Reconciliation of Budget/GAAP Reporting Differences

The *Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis – Non-GAAP) – General Fund*, presents comparisons of the legally adopted budget (which is more fully described in section A, above) with actual data on a budgetary basis. Accounting principles applied to develop data on a budgetary basis differ significantly from those principles used to present financial statements in conformity with generally accepted accounting principles (GAAP). The following describes the major differences between budgetary financial data and GAAP financial data.

Basis differences. Budgetary funds are accounted for on the cash basis of accounting, while under GAAP the governmental funds use the modified accrual basis. Accrued revenues and expenditures are recognized in the GAAP financial statements.

Timing differences. A significant variance between budgetary practices and GAAP is the authorized carryforward of appropriated funds, which is described in section A.

The following table presents a reconciliation of resulting entity, basis and timing differences in the fund balances (budgetary basis) at June 30, 2012 to the fund balances on a modified accrual basis (GAAP). Amounts are expressed in thousands.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

	<u>General Fund</u>
Fund balance (budgetary basis), June 30, 2012	\$ 1,745,436
<u>Reconciling Adjustments:</u>	
Basis Differences:	
Accrued revenues:	
Taxes receivable.....	1,757,395
Accounts receivable.....	240,470
Federal funds, net.....	565,682
Other receivables.....	169,290
Less:	
Tax refunds payable.....	(1,358,707)
Deferred revenue.....	(551,072)
Total accrued revenues.....	<u>823,058</u>
Accrued expenditures:	
Medical claims payable.....	(778,120)
Accounts payable and accrued liabilities.....	(738,275)
Other payables.....	(298,332)
Total accrued expenditures.....	<u>(1,814,727)</u>
Other Adjustments:	
Notes receivable.....	62,760
Inventories.....	80,054
Investment Market Value	(14,616)
Timing Differences:	
Authorized carryforward for specific encumbrances	<u>140,483</u>
Fund balance (GAAP basis) June 30, 2012.....	<u>\$ 1,022,448</u>

D. Budgetary Reserves

The North Carolina General Assembly has established several accounts in the General Fund as reserved fund balances for budgetary purposes. Funds that are transferred to these accounts from the unreserved credit balance of the General Fund can be used only for their intended purposes and on a budgetary basis are not available for appropriation.

Savings Reserve Account (General Statute 143C-4-2). The State Controller shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The Savings Reserve Account is a component of the unappropriated General Fund balance. Funds reserved to the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate and maintain a balance in

the Savings Reserve Account equal to or greater than eight percent (8%) of the prior year's General Fund appropriation budget.

At the beginning of fiscal year 2011-12 the balance of the Savings Reserve Account was \$295.6 million. In accordance with Session Law 2012-142 the State Controller was directed to transfer \$123.2 million from the unreserved fund balance to the Savings Reserve on June 30, 2012. At the end of the fiscal year 2011-12, the balance of this reserve was \$418.8 million.

Repairs and Renovations Reserve Account (General Statute 143C-4-3). The Repairs and Renovations Reserve Account is established as a reserve in the General Fund. The State Controller shall reserve to the Repairs and Renovations Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year. The funds in the Repairs and Renovations Reserve Account shall be used only for the repair and renovation of State facilities and related infrastructure that are supported from the General Fund. Funds reserved to the Repairs and Renovations Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. In accordance with Session Law 2012-142, the State Controller was directed to transfer \$23.2 million from the unreserved fund balance to the Repairs and Renovations Reserve on June 30, 2012. At the end of the fiscal year 2011-12, the balance of this reserve was \$89.3 million.

Disproportionate Share Reserve Account (Session Law 2009-451, Senate Bill 202, Section 10.64(a)). Disproportionate share payments are Medicaid payments made to hospitals which serve a disproportionate share of indigent patients. This account was established to reserve for future appropriation any excess collection of disproportionate share revenues above those budgeted as non-tax revenues. At the end of the fiscal year 2011-12, there was no remaining balance.

Disaster Relief Reserve (Session Law 2005-1, Senate Bill 7). During fiscal year 2004-2005 \$248.17 million was transferred to the Disaster Relief Reserve. This \$248.17 million was funded from required agency, university, and community college transfers, a Savings Reserve Account transfer, and transfers of funds from the unreserved credit balance. At the end of the fiscal year 2011-12, the balance of this reserve was \$4.5 million.

Job Development Investment Grant (JDIG) Program Reserve (General Statute 143-15.3E). In accordance with Session Law 2004-124, House Bill 1414, Section 6.12.(a), Article 1 of Chapter 143 of the General Statutes was amended by adding a new section requiring the establishment of a JDIG Reserve in the General Fund. It is the intent of the General Assembly to annually appropriate funds to this reserve in amounts sufficient to meet anticipated cash requirements for each fiscal year of the JDIG Program established pursuant to General Statute 143B-437.52. Funds in the amount of \$4.5 million were appropriated for fiscal year 2004-05, \$9 million for fiscal year 2005-06, \$12.4 million for fiscal year 2006-07, \$12.4 million for fiscal year 2007-08, \$27.4 million for fiscal year 2008-09 and \$19 million for fiscal year 2009-10. While

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\$27.4 million was appropriated for JDIG for fiscal year 2008-09, this entire amount was directed by the Governor to revert at year end to help ensure that the State not incur a deficit. The JDIG Reserve was appropriated \$20.8 million for fiscal year 2010-11 and \$15.4 million for fiscal year 2011-12. At the end of fiscal year 2011-12, the balance of this reserve was \$0.5 million.